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TREASURY FOR JEFFREY LEVINE
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E.O. 12958: N/A
TAGS: EFIN ECON EAID PGOV HA
SUBJECT: HAITI: SPENDING AND FINANCE GAP GROWING CONCERNS

¶1. (SBU) SUMMARY: The IMF Resident Representative for Haiti is concerned about the level of spending in the waning days of the IGOH administration, which could derail its EPCA II program. In the longer term, the financing gap, although just reduced from USD 31 to 16 million, could delay funding of a future Poverty Reduction and Growth Facility (PRGF) program. Post will continue to urge the IGOH to rein in unnecessary spending and recommends that the Department and Treasury to work with other donors to find a way to cover the finance gap. END SUMMARY.

IMF: Too Much Spending Could Push Haiti Off-Track
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¶2. (SBU) IMF Resident Representative for Haiti, Ugo Fasano, told Econ Counselor on March 22 that he is very concerned about the level of spending in the waning days of the IGOH administration. It is likely that the IGOH will miss its end of March target under EPCA II. Fasano said that if the spending was justifiable, for example on security or elections, it was likely that the IMF would grant the IGOH a waiver. However, if the spending was unjustifiable, such as on new vehicle purchases, there would be no waiver and the IGOH would be considered off-track with its IMF program. Fasano,s main frustration is that he cannot get good information from the IGOH on where the money is going. He urged the USG to deliver the message wherever possible that the IGOH must restrain spending to equal receipts during its last days in power.

Financing Gap Threatens PRGF
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¶3. (SBU) Fasano,s longer-term concern is the financing gap for the second half of the fiscal year that begins April 1, although there is some good news. Canada has agreed to furnish approximately USD 15 million, ostensibly to pay for IDB debt service, which reduces the gap from USD 31 to 16 million. The bad news is that no other new funding is in sight. Fasano pointed out that if money does not materialize soon, it would delay a planned Poverty Reduction and Growth Facility (PRGF) program for Haiti. The IMF will not take the PRGF to the board until the gap is covered. A delay in the PRGF would then delay Haiti,s consideration for HIPC debt relief. To make matters worse, the USD 16 million assumes no

new spending by the Preval government. Fasano fears that the gap will grow, as the new Preval government will want to start new projects.

¶4. (SBU) If money were found to cover the financing gap, the IMF would send teams to Haiti in May, June and August to negotiate, conclude and sign the PRGF. The program would go to the board in September and would begin at the start of the Haitian fiscal year on October 1.

¶5. (SBU) COMMENT: Both of these concerns are serious. Ill-advised spending is what got Haiti into trouble with the IMF during the previous EPCA. If Haiti goes off track again it sends a very negative signal to donors and could delay disbursement of other IFI programs. Potentially more serious is that IGOH spending could leave President-elect Preval with empty coffers just as he is about to take office. Ambassador has made the point to the Finance Minister that he should maintain fiscal discipline, and Emboffs will reinforce the message at every opportunity. Later in the year, if no new funds come forth to cover the financing gap, funding from the PRGF would be delayed, opening the doors to arrears or inflationary deficit spending, and giving Preval the opportunity to blame the international community for Haiti,s economic failure. Post urges the Department and Treasury to redouble its efforts with other donors to find a way to cover the financing gap. END COMMENT.
SANDERSON